Cisco Systems Inc. (CSCO)

Updated November 18th, 2021 by Nathan Parsh

Key Metrics

Current Price:	$51	**5 Year CAGR Estimate:**	8.7%	**Market Cap:**	$237 billion
Fair Value Price:	$51	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date:**	1/4/2022[1]
% Fair Value:	100%	**5 Year Valuation Multiple Estimate:**	0.1%	**Dividend Payment Date:**	1/20/2022
Dividend Yield:	2.9%	**5 Year Price Target**	$69	**Years Of Dividend Growth:**	11
Dividend Risk Score:	B	**Retirement Suitability Score:**	B	**Last Dividend Increase:**	2.8%

Overview & Current Events

Cisco Systems is the global leader in high performance computer networking systems. The company's routers and switches allow networks around the world to connect to each other through the internet. Cisco also offers data center, cloud, and security products. The company went public on 2/16/1990 at the split adjusted price of $0.06. Today, Cisco employs more than 79,000 people and generates about $53 billion in annual revenues.

Cisco reported earnings results for the first quarter of fiscal year 2022 on 11/17/2021. For the quarter, revenue grew 8.1% to $12.9 billion, but was $90 million lower than expected. Adjusted net income of $3.5 billion, or $0.82 per share, compared favorably to adjusted net income of $3.2 billion, or $0.76 per share, in the previous year. Adjusted earnings-per-share was also $0.02 ahead of estimates.

Beginning with the most recent quarter, Cisco has renamed its business segments. Secure Agile Networks, formerly known as Infrastructure, grew 10% while End-to-End Security, formerly known as Security, was higher by 4%. Internet for the Future grew 46% and Optimized Application Experiences was up 18%. Hybrid Work was the lone segment to decline, as revenue was lower by 7%. Within Hybrid, software revenue improved 1% to $3.7 billion with 80% of revenue being subscription based. Deferred revenue was higher by 10% to $21.6 billion. By region, the Americas improved 5%, EMEA was higher by 11% and Asia-Pacific/Japan/China was up 15%. Total gross margins contracted 120 basis points to 62.4%. Cisco repurchased 5 million shares at an average price of $56.49 during the quarter. Cisco has $7.7 billion, or 3.5**%** of its current market cap, remaining on its share repurchase authorization. The company also distributed $1.6 billion of dividends during the quarter.

Cisco issued guidance for fiscal year 2022. The company expects revenue to grow 5% to 7% from the prior year, down from 7.5% to 9.5% previously. Adjusted earnings-per-share is still expected in a range of $3.38 to $3.45. At the midpoint, this would be a 6.2% improvement from the prior year, but is slightly below market expectations, which sent the stock down significantly following the earnings release.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	$1.85	$2.02	$2.06	$2.21	$2.36	$2.39	$2.60	$3.10	$3.21	$3.22	***$3.42***	***$4.58***
DPS	$0.28	$0.62	$0.72	$0.80	$0.94	$1.10	$1.32	$1.40	$1.44	$1.46	***$1.48***	***$1.98***
Shares[2]	5298	5389	5107	5085	5029	4983	4670	4307	4243	4238	***4243***	***4000***

Between 2011 and 2020, Cisco's earnings increased at a rate of 6.4% per year. We reaffirm our expected growth rate of 6% due to a combination of improving margins and share repurchases offset by revenue weakness.

Following a 2.8% increase for the 4/28/2021 payment, Cisco has increased its dividend for 11 consecutive years. For much of this time, shareholders have seen impressive dividend growth since the company instituted its dividend, though growth has slowed considerably over the past few years.

[1] Estimated ex-dividend date

[2] Share count in millions

Disclosure: This analyst has a position in the security discussed in this research report.

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Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	9.7	10.3	11.3	12.3	11.5	13.3	15.1	16.1	15.5	17.2	***14.9***	***15.0***
Avg. Yld.	1.6%	3.0%	3.1%	2.9%	3.5%	3.5%	3.2%	2.7%	2.8%	2.6%	***2.9%***	***2.9%***

Shares of Cisco have decreased $7, or 12.1%, since our 8/20/2021 update. The 2009 to 2010 time frame saw shares of Cisco trade with a well above average price-to-earnings multiple. Over the last decade, shares have traded with an average P/E of 13.2. Given the company's growth in subscription services in recent quarters and large cash balance, we maintain our target P/E of 15 for fiscal 2027. As of now, we don't expect valuation to play a major part of total returns over the next five years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	15%	30%	35%	36%	40%	46%	51%	45%	45%	45%	***43%***	***43%***

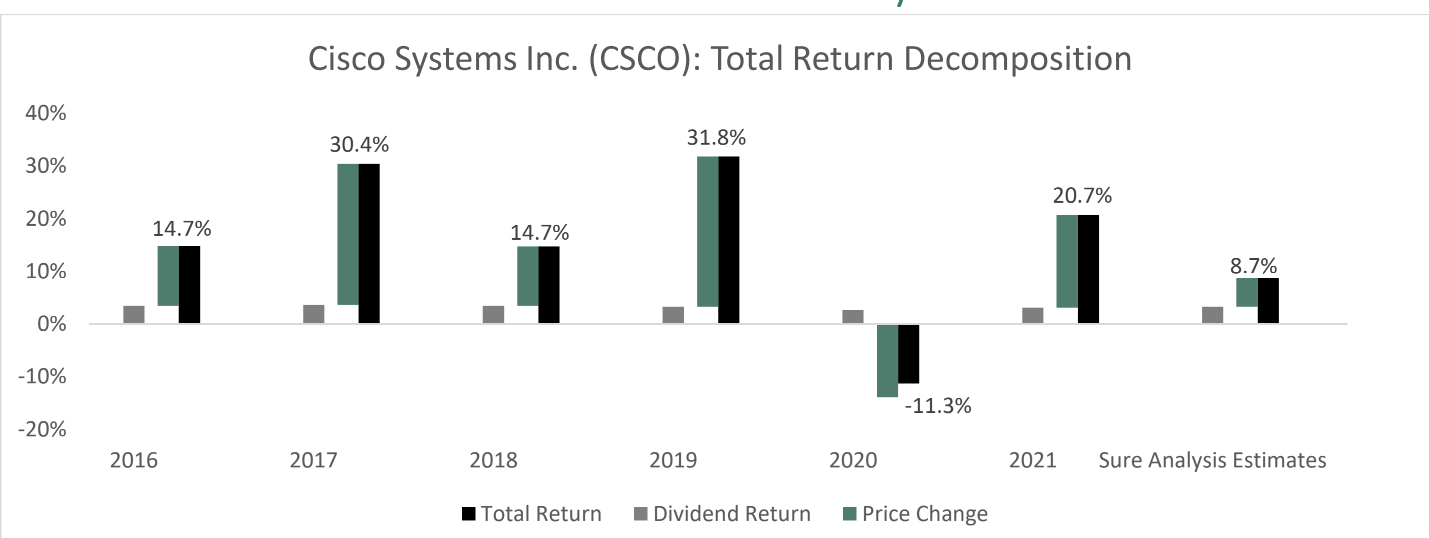
Cisco ended the first quarter of fiscal 2022 with $23.3 billion in cash and equivalents. Given the cash on the balance sheet, it is likely that Cisco would be able to continue to pay a dividend even in the event of an extended recession.

With everything from computers to cell phones to buildings connected today, Cisco is in a prime position to capitalize on the Internet of Things. In fact, Cisco is responsible for 80% of all the data moved over the internet in the past 30 years. While Cisco continues to enjoy hardware dominance, the company is attempting to become more of a subscription services company. This should help create more predictable revenue streams. One such example of this effort is the Catalyst 9K switch. This switch is twice as fast as competing products and protects data and cloud networks.

Final Thoughts & Recommendation

Cisco Systems is projected to return 8.7% annually over the next five years, up from our prior estimate of 6.0%. Our estimated return stems from a 6% earnings growth rate and a 2.9% dividend yield. Cisco saw solid growth for both revenue and earnings, though the former was slightly below estimates. All but one segment saw year-over-year gains. The company maintained its adjusted earnings-per-share guidance, but lowered its revenue growth expectations for the fiscal year. We reaffirm our five-year price target of $69 as well as our hold rating on the stock.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2021
Revenue	46061	48607	47142	49161	49247	48005	49330	51904	49301	49818
Gross Profit	28209	29440	27769	29681	30960	30224	30606	32666	31683	31894
Gross Margin	61.2%	60.6%	58.9%	60.4%	62.9%	63.0%	62.0%	62.9%	64.3%	64.0%
SG&A Exp.	11969	11802	11437	11861	11433	11177	11386	11398	11094	11411
D&A Exp.	2208	2460	2439	2442	2150	2286	2192	1897	1808	1862
Operating Profit	10369	11301	9763	11254	12928	12729	12667	14541	14101	13719
Op. Margin	22.5%	23.2%	20.7%	22.9%	26.3%	26.5%	25.7%	28.0%	28.6%	27.5%
Net Profit	8041	9983	7853	8981	10739	9609	110	11621	11214	10591
Net Margin	17.5%	20.5%	16.7%	18.3%	21.8%	20.0%	0.2%	22.4%	22.7%	21.3%
Free Cash Flow	10365	11734	11057	11325	12424	12912	12832	14922	14656	14762
Income Tax	2118	1244	1862	2220	2181	2678	12929	2950	2756	2671

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2021
Total Assets ($B)	91759	101191	105070	113373	121652	129818	108784	97793	94853	97497
Cash & Equivalents	9799	7925	6726	6877	7631	11708	8934	11750	11809	9175
Acc. Receivable	4369	5470	5157	5344	5847	5146	5554	5491	5472	5766
Inventories	1663	1476	1591	1627	1217	1616	1846	1383	1282	1559
Goodwill & Int.	18957	25322	27519	26845	29126	32305	34258	35730	35382	41787
Total Liabilities	40458	42063	48409	53666	58067	63681	65580	64222	56933	56222
Accounts Payable	859	1029	1032	1104	1056	1385	1904	2059	2218	2362
Long-Term Debt	16328	16211	20845	25354	28643	33717	25569	24666	14583	11526
Total Equity	51286	59120	56654	59698	63586	66137	43204	33571	37920	41275
D/E Ratio	0.32	0.27	0.37	0.42	0.45	0.51	0.59	0.73	0.38	0.28

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	9.0%	10.3%	7.6%	8.2%	9.1%	7.6%	0.1%	11.3%	11.6%	11.0%
Return on Equity	16.3%	18.1%	13.6%	15.4%	17.4%	14.8%	0.2%	30.3%	31.4%	26.7%
ROIC	12.2%	14.0%	10.3%	11.0%	12.1%	10.0%	0.1%	18.3%	20.3%	20.1%
Shares Out.	5298	5389	5107	5085	5029	4983	4670	4307	4243	4238
Revenue/Share	8.52	9.03	8.93	9.55	9.68	9.51	10.11	11.66	11.59	11.76
FCF/Share	1.92	2.18	2.09	2.20	2.44	2.56	2.63	3.35	3.45	3.48

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.